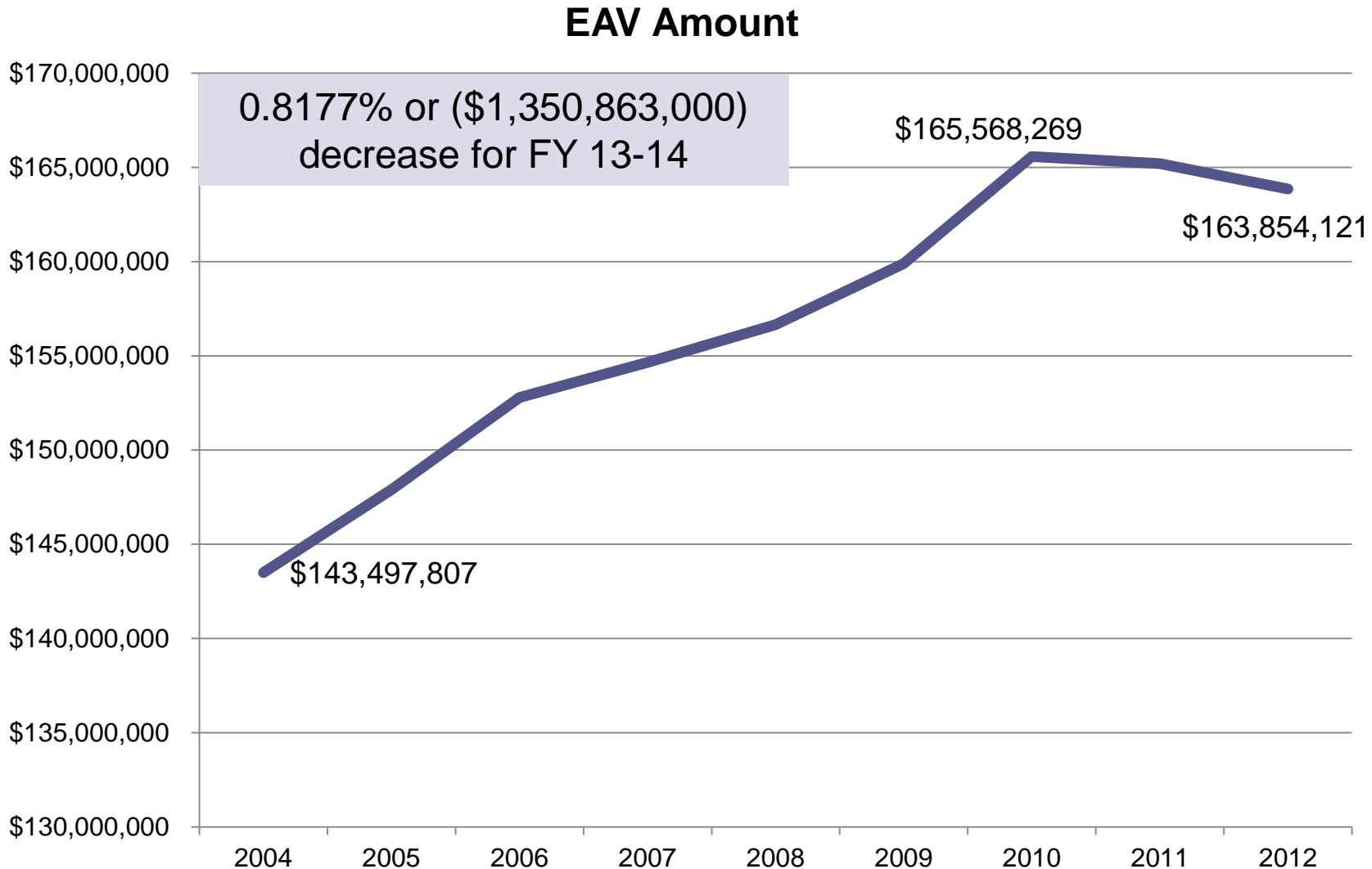




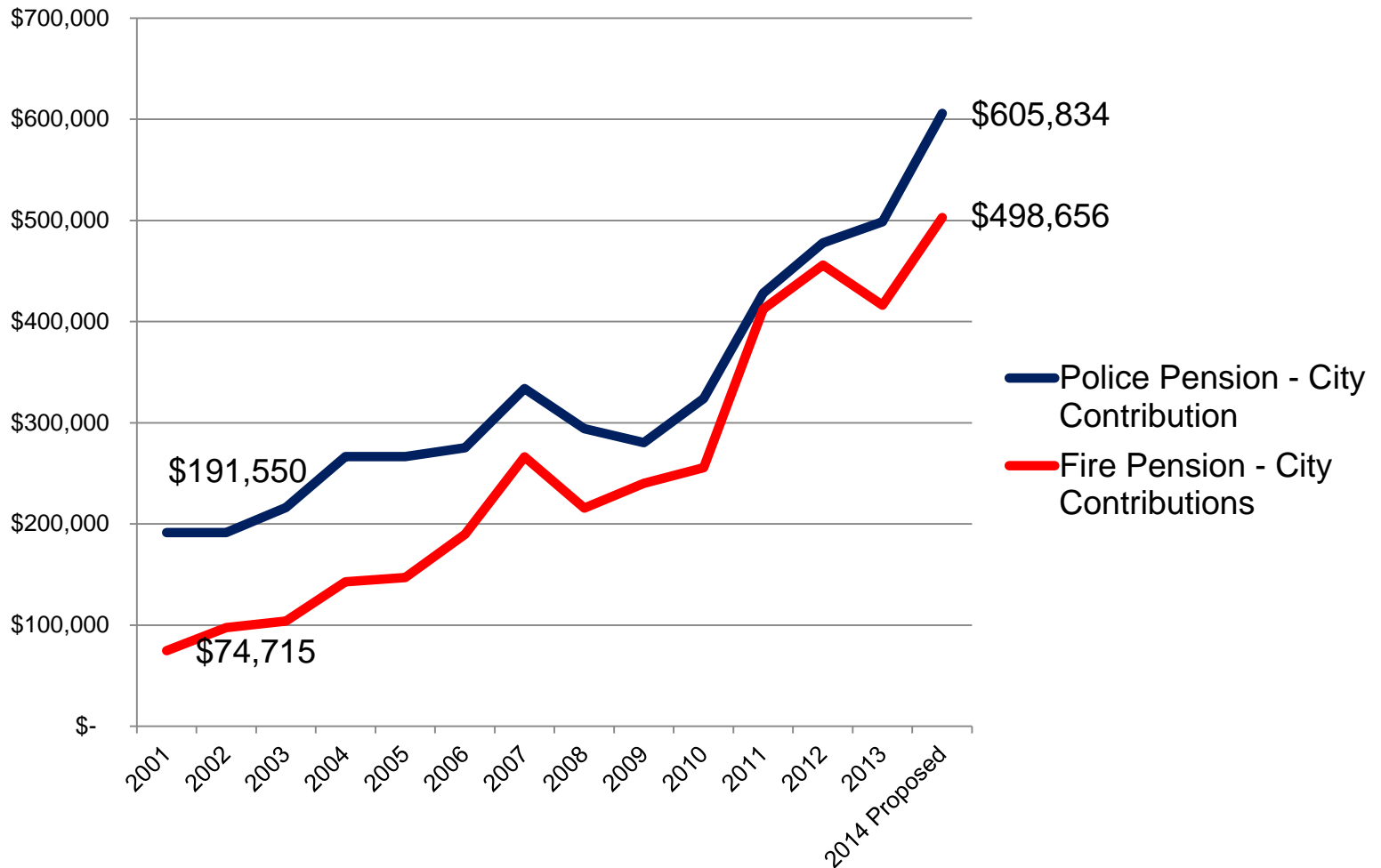
2012 Tax Levy

EAV – Equalized Assessed Value

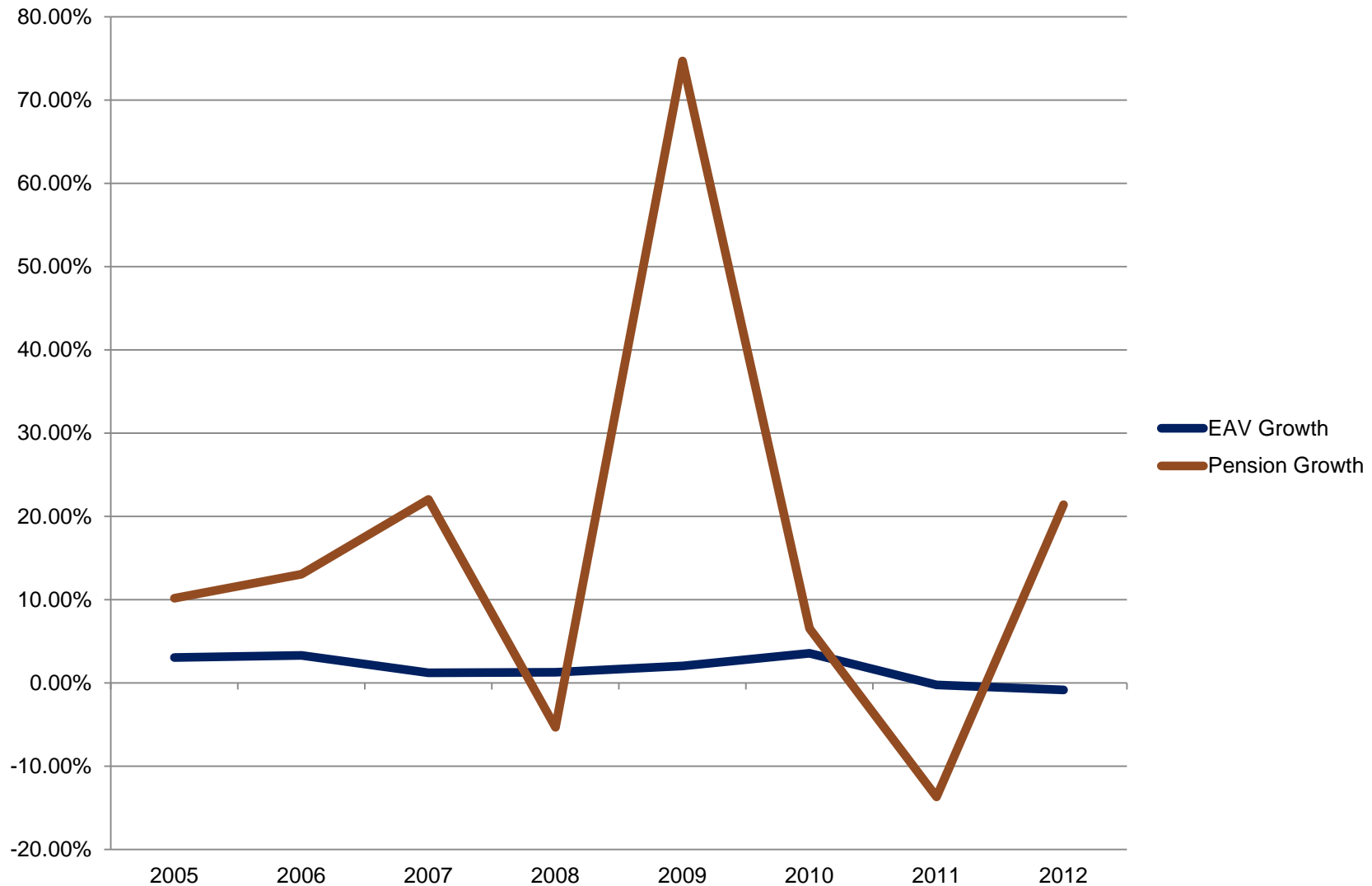


Pension Costs to City

(property + replacement tax)

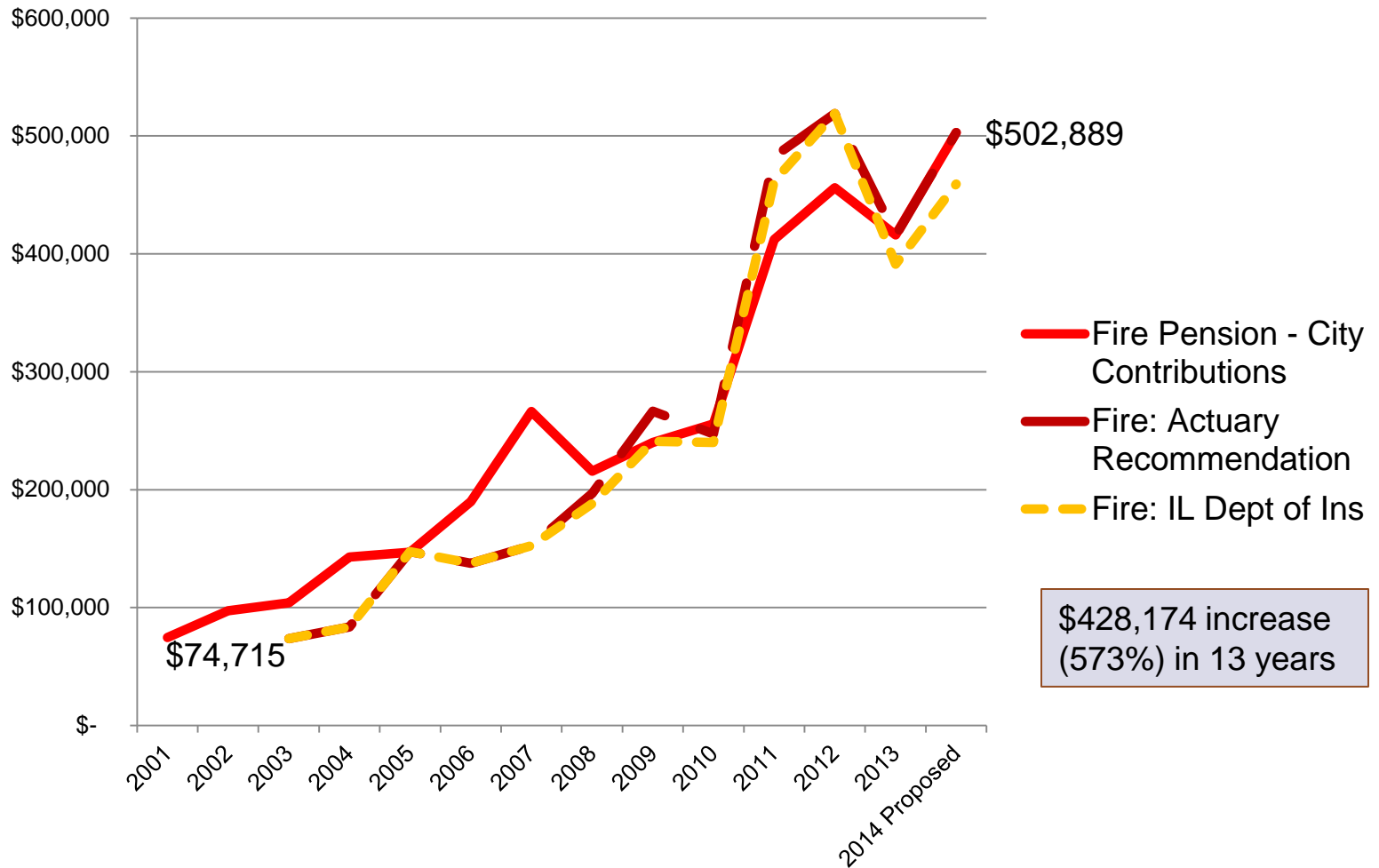


EAV Growth v. Pension Growth



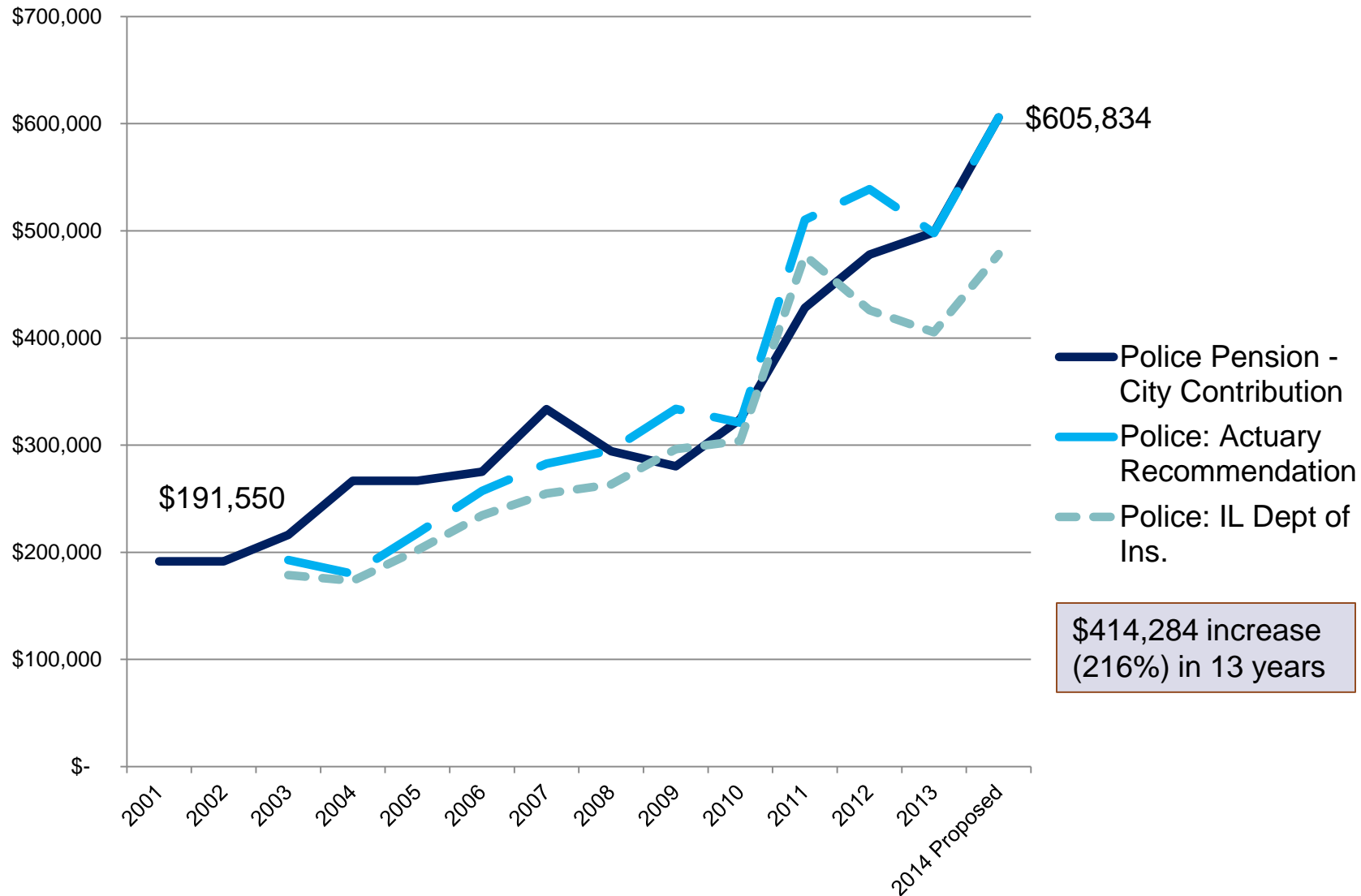
Pension Costs to City

Fire: Actual v. Actuary v. IL Dept of Insurance



Pension Costs to City

Police: Actual v. Actuary v. IL Dept of Insurance



Rate of Return

- Last year, the City began using a 7.25% rate of return assumption for investments. Previously, the rate had been 7.75%
- The lower the assumed long-term rate of return, the greater the calculated City contributions
 - If RoR is set too high, the pension funds will become increasingly underfunded, pushing costs to the next generation
 - If RoR is set too low, taxes will be higher than necessary
- Actuary noted at that time, *“My current philosophy is that given the investment restrictions which are contained in both the police and the firefighter statutes and the current economic climate, my general comfort level is that the long term investment rate assumption should be somewhere between 6.50% and 7.50%.”*

Rate of Return (cont'd)

- Choosing a rate of return for calculating :
 - **History of funding**
 - City has nearly always met or exceeded our actuary's recommendations and always exceeded the Illinois Department of Insurance calculations
 - **Stability of the demographics**
 - Community demographics aren't changing, but the funds are experiencing more retirees
 - **Past investment performance**
 - next slide
 - **Cash flow requirements for current retiree payout**
 - both funds are paying out over \$820,000 per year, but are projected to pay out \$1m in less than 5 years
 - **To a lesser extent, current funding percentage**
 - Lowering rates of return will alter funding ratios and make it appear less well funded. The actuary notes that while it may appear less well funded, assuming a lower return rate while properly funding will actually strengthen the funds and improve stability

Rate of Return (cont'd)

ANALYSIS OF INVESTMENT RETURN - Fire Pension

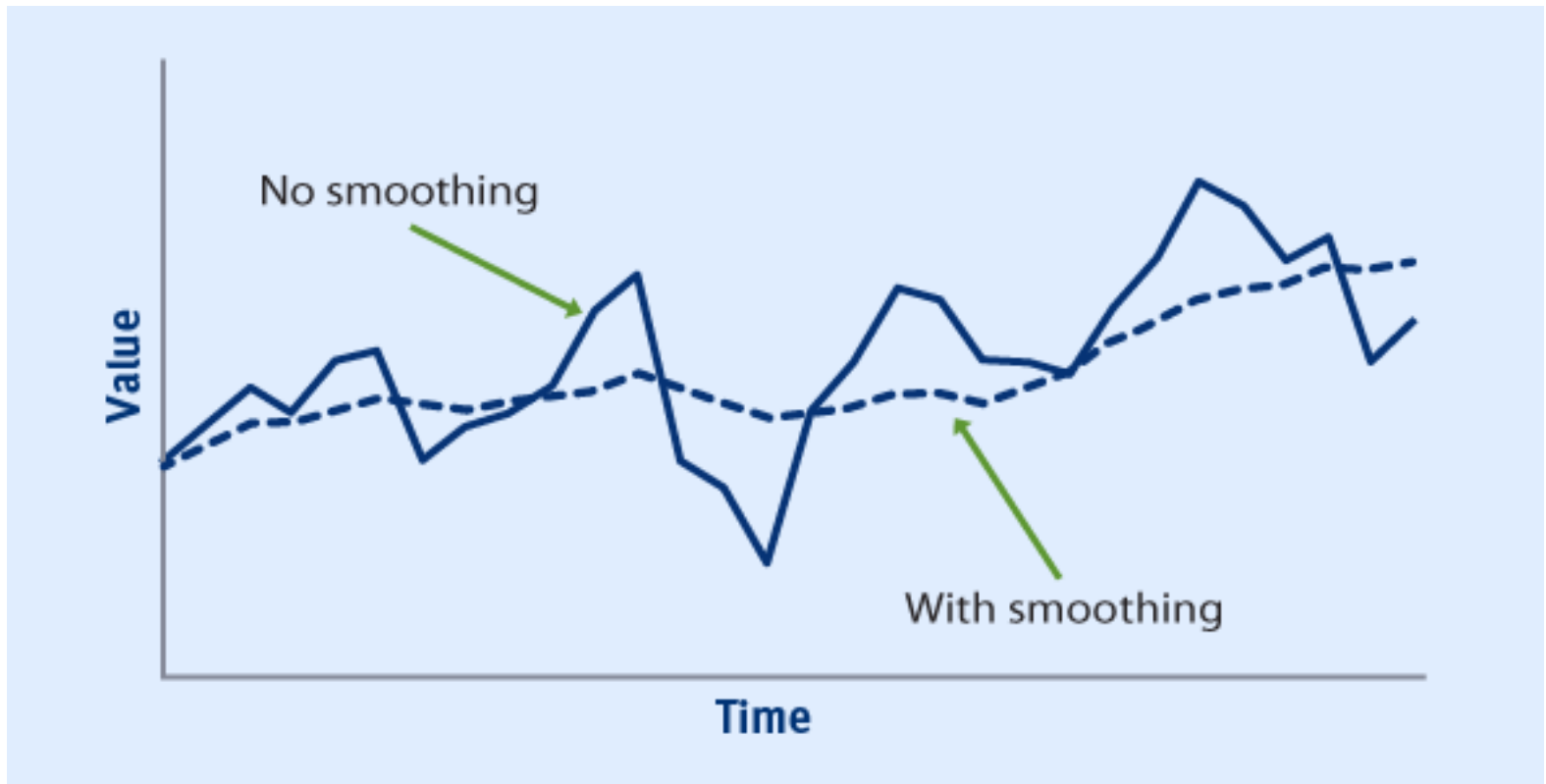
<u>Fiscal Year Ending April 30</u>	<u>Annual Rate of Return</u>
2011	1.46%
2011	11.33%
2010	13.48
2009	-13.85
2008	1.78
2007	8.51
2006	12.62
2005	5.37
2004	10.52
2003	-4.35
<u>Composite</u>	
2003-2012	4.34%

Rate of Return (cont'd)

ANALYSIS OF INVESTMENT RETURN - Police Pension

<u>Fiscal Year</u> <u>Ending April 30</u>	<u>Annual Rate</u> <u>of Return</u>
2012	0.53%
2011	9.72%
2010	16.84
2009	-13.14
2008	1.66
2007	8.73
2006	11.45
2005	4.77
2004	12.50
2003	-0.07
<u>Composite</u>	
2003-2012	4.97%

Rate of Return - Smoothing



Funding Ratios

- Two methods for determining funding ratios:
 - Entry Age Normal (EAN)
 - Preferred by actuaries
 - Tries to provide for a level ratio of annual funding
 - Projected Unit Credit (PUC)
 - Used by the State
 - Helps kick the can down the road by increasing costs as a percentage over time
- Fire
 - EAN
 - 2012 – 68.68%
 - 2011 – 74.70%
 - PUC
 - 2012 – 70.94%
 - 2011 – 77.32%
- Police
 - EAN
 - 2012 – 65.66%
 - 2011 – 71.46%
 - PUC
 - 2012 – 70.31%
 - 2011 – 76.46%

Pension Levies – Not Alone

- Niles Fire Pension
2012 Payroll Contribution - 64.14%
2011 Payroll Contribution - 67.03%

Niles Police Pension
2012 Payroll Contribution - 61.53%
2011 Payroll Contribution - 60.78%

Evanston Fire Pension
2012 Payroll Contribution - 66.24%
2011 Payroll Contribution - 71.64%

Evanston Police Pension
2012 Payroll Contribution - 58.50%
2011 Payroll Contribution - 65.23%

Champaign Fire Pension
2012 Payroll Contribution - 51.06%
2011 Payroll Contribution

Champaign Police Pension
2012 Payroll Contribution - 51.1%
2011 Payroll Contribution

- Bloomington Fire Pension
2012 Payroll Contribution
2011 Payroll Contribution - 52.62%

Bloomington Police Pension
2012 Payroll Contribution
2011 Payroll Contribution - 43.38%

Moline Fire Pension
2012 Payroll Contribution - 70.58%
2011 Payroll Contribution

Moline Fire Pension
2012 Payroll Contribution - 41.91%
2011 Payroll Contribution

IMRF

- IMRF was reformed in 2010 by the State legislature. However, due to significant losses in 2008, rates rose in January 1, 2010
 - 2009 rate = 8.3% of payroll
 - 2010 rate = 10.67%
 - 2011 rate = 11.14%
 - 2012 rate = 10.57%
 - 2013 rate = 12.25%

IMRF Funding

- Fiscal Year 2012 ended with nearly \$546,550 in reserves
- Contribution rates jumped from 1.51% to 8.3% to 10.67% from 2008 to 2010 due to several circumstances including the economy
- Prior two tax levy increases would have been even greater if the City fully levied for increased contributions
 - Staff proposed a 5 year plan to draw down the IMRF fund balance while increasing IMRF levy over time to avoid a larger increase
 - FY 2014 is year number 3 of the original plan
 - Staff Proposes revising the initial plan to buffer police & fire increases

IMRF Funding

Original 2009 Forecast

IMRF Funding

	2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
End Fund Balance		\$ 778,718	\$ 625,825	\$ 402,920	\$ 231,920	\$ 112,340	\$ 43,923	\$ 26,403	\$ 49,507
Levy		\$ 55,143	\$ 55,000	\$ 115,000	\$ 175,000	\$ 235,000	\$ 295,000	\$ 345,000	\$ 405,000
IMRF Rate	1.51	8.3							
IMRF Budget	\$ 95,200	\$ 116,150	\$ 277,905	\$ 286,000	\$ 294,580	\$ 303,417	\$ 312,520	\$ 321,896	\$ 331,552

2012 Update

IMRF Funding

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
End Fund Balance	\$ 546,550	\$ 476,594	\$ 373,189	\$ 281,012	\$ 201,799	\$ 137,281	\$ 89,176	\$ 59,199	\$ 49,052	\$ 58,430
Levy	\$ 115,000	\$ 175,000	\$ 189,000	\$ 209,000	\$ 231,000	\$ 255,000	\$ 281,000	\$ 309,000	\$ 339,000	\$ 369,000
IMRF Rate	11.14	10.57	12.25							
IMRF Budget	\$ 286,000	\$ 244,956	\$ 292,405	\$ 301,177	\$ 310,212	\$ 319,519	\$ 329,104	\$ 338,978	\$ 349,147	\$ 359,621

Retirement Contributions

- Percent of Payroll - Employer
 - IMRF + Social Security ($10.57\% + 6.2\%$) = 16.77% of payroll
 - Police = 35.75% of payroll
 - Fire = 43.6% of payroll
- Percent of Payroll – Employee
 - IMRF + Social Security – $4.5\% + 6.2\%$ = 10.7% of payroll
 - Police = 9.91% of salary (40 ILCS 5/3-125.1)
 - Fire = 9.455% of salary (40 ILCS 5/4-118.1)
- 64 IMRF/SS employees = \$440,398 (\$6,881/employee)
- 28 police pension employees = \$605,834 (\$21,637/employee)
- 19 fire pension employees = \$502,889 (\$26,468/firefighter)

Pension Benefits

- Fire & Police
 - Tier 1 (hired before January 1, 2011)
 - Age 50
 - 50% pension at 20 years of service
 - 75% pension with 30 years of service
 - Annual 3% compounding COLA
 - Pension based on last paycheck
 - Tier 2 (hired after January 1, 2011)
 - Age 55 or Age 50 with a 6% penalty for each year before 55
 - 2.5% pension for each year of service, minimum 10 years
 - 25% for 10 years @ 55,
 - 50% for 20 years,
 - 75% for 30 years (75% is maximum)
 - Annual increase of 3% or one-half the unadjusted percentage increase (but not less than zero) in the CPI-U, whichever is less of the original pension
 - Pension based on average of 96 months of last 120 months

Pension Benefits

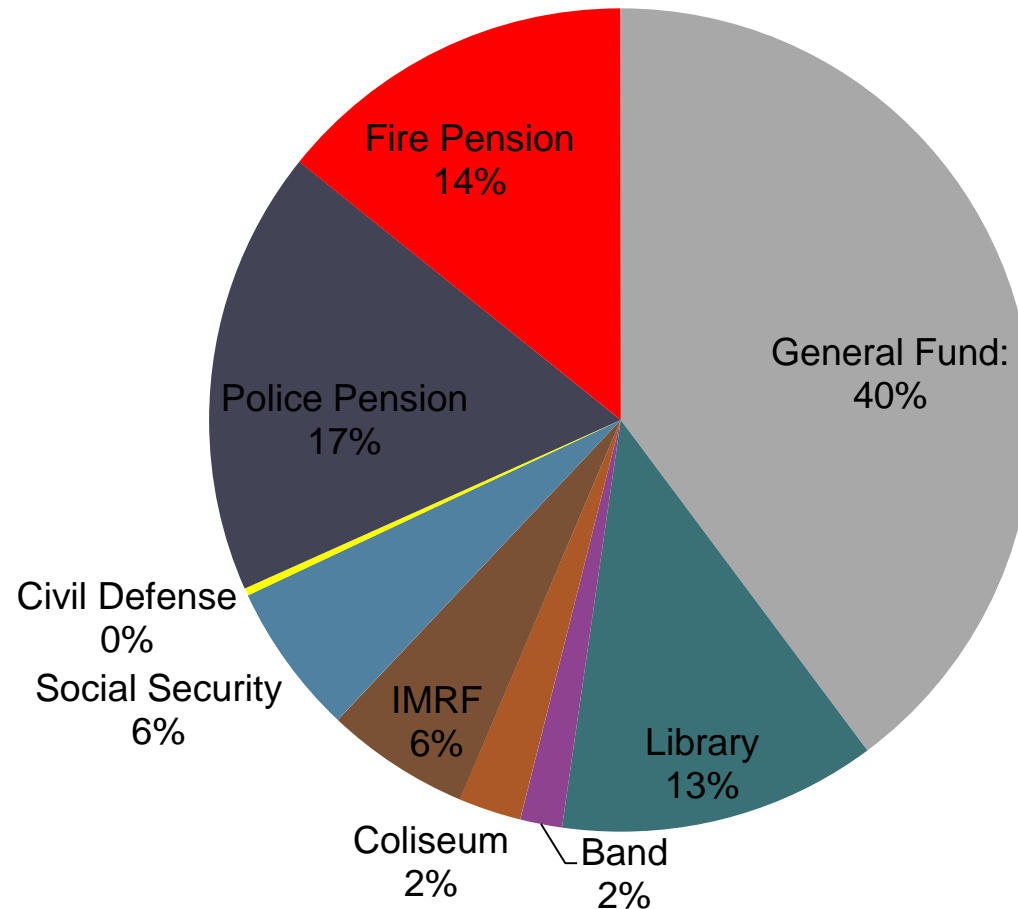
- IMRF

- Tier 1 (hired before January 1, 2011)
 - Age 55
 - 35% pension at 20 years of service
 - 55% pension at 30 years of service
 - 75% pension at 40 years of service (maximum)
 - Annual 3% increase based on the original pension
 - Pension based on average of highest 4 years in last ten
- Tier 2 (hired after January 1, 2011)
 - Age 62
 - 35% pension at 20 years of service
 - 55% pension at 30 years of service
 - 75% pension at 40 years of service (maximum)
 - Annual increase of 3% or one-half the unadjusted percentage increase (but not less than zero) in the CPI-U, whichever is less of the original pension
 - Pension based on average of 96 months of last 120 months

Recommendation

- Implement revised stepped increases for IMRF funding to continue drawing down the IMRF fund balance
- Push for State reforms (added employee contributions, age)
- Overall levy increase of 6.99%
 - Attempt to avoid further staff reduction, particularly in public safety
 - Do not pass the pension costs on to the next generation as the State has done
 - Stabilize declining funding ratios
- Consider Home Rule for revenues other than property tax to pay for pensions
 - Sales tax (a 0.5% sales tax could reduce city property tax levy by nearly 1/3 -- takes ~\$200 off the tax bill on a \$100,000 owner occupied home)
 - Food & Beverage Tax – would shift more tax to those with more disposable income for dining and drinking out
 - Both Sales Tax and Food & Beverage also share the burden with people who live outside of the City. Currently, city residents are solely responsible for fire pension funding even though we serve people outside of the City limits with our fire department.

Levy Distribution



Other notes

- Police and fire must be 90% funded by 2040
- 3 firefighters and one police officer have retired since the actuarial data was compiled
 - More pension expense next year (increasing likelihood for even higher contributions)
 - Another pension or disability pension is pending
- Cities do NOT control pension benefit amounts, retirement ages, nor employee contributions. They are all set by the State in Statutes. 40 ILCS 5/3 for Police and 40 ILCS 5/4 for Fire
- State of Illinois
 - IMRF assumes a 7.5% return (80.5% funded 12/31/2011)
 - SURS, SERS, TRS assume 7.75-8.0% (TRS Cut from 8.5% to 8.0% this year)
 - Illinois 43.4% funded (approximately 12% of IL budget is spent on pensions)
- Other revenues could increase
 - Sales tax on pace to exceed budget by \$70,000
 - New revenues from video gaming – unknown amount
- Expenses *will* increase next budget
 - Employer share of health insurance (split 80/20 with employees)
 - Fire union contract 2.5% increase in 2013
 - Police contract open in 2013
 - General liability insurance costs generally increase 5-11% each year
- Not all other cities equal. Sterling somewhat unique in having no electric or natural gas taxes (Dixon, Rock Falls, Freeport, Rock Island, Moline, East Moline, Belvidere, Oregon, etc have natural gas and/or electric taxes. Galesburg considering today)

Levy Amount

- Should the Council wish to freeze the levy amount, the Council should:
 - Prepare to cut additional \$270,000 from the FY 13-14 Budget, most of which will be personnel
 - Underfund the pensions (not recommended)
 - Advocate for Home Rule referendum
- Should the Council wish to freeze the levy rate, the Council should:
 - Prepare to cut additional \$295,000 from the FY 13-14 Budget, most of which will be personnel
 - Underfund the pensions (not recommended)
 - Advocate for Home Rule referendum

2012 Tax Levy Estimate

		2011 EAV (actual)		2012 EAV (estimated)		% Change
		\$165,204,984		\$163,854,121		
	2011 Levy	2011 Extension	2011 Rate	2012 Estimate	2012 Rate	Estimate Extension
General Fund:						
Corporate	\$414,207	\$413,012	0.2500	\$409,635	0.2500	-0.82%
Fire Protection	248,524	247,807	0.1500	\$245,781	0.1500	-0.82%
Police Protection	248,524	247,807	0.1500	\$245,781	0.1500	-0.82%
Tort & Liability	306,022	306,123	0.1853	\$321,429	0.1962	5.00%
Worker's Comp	101,063	101,105	0.0612	\$106,116	0.0648	4.96%
Subtotal General Fund:	\$1,318,340	\$1,315,856	0.7965	\$1,328,743	0.8109	
Library Board:						
Library	\$364,502	\$363,451	0.2200	\$360,479	0.2200	-0.82%
Library-Bldg Maint	33,137	33,041	0.0200	\$32,771	0.0200	-0.82%
Library-General Insurance	22,800	22,800	0.0138	\$23,940	0.0146	5.00%
Subtotal Library Board:	\$420,439	\$419,292	0.2538	\$417,190	0.2546	
Other Funds:						
Band	\$55,000	\$55,013	0.0333	\$55,000	0.0336	-0.02%
Coliseum	82,841	82,602	0.0500	\$81,927	0.0500	-0.82%
IMRF	180,000	180,073	0.1090	\$189,000	0.1153	4.96%
Social Security	194,887	194,942	0.1180	\$198,900	0.1214	2.03%
Civil Defense	10,000	10,078	0.0061	\$10,000	0.0061	-0.77%
Police Pension	475,884	475,956	0.2881	\$583,834	0.3563	22.67%
Fire Pension	387,260	387,406	0.2345	\$474,889	0.2898	22.58%
Subtotal Other Funds	\$1,385,872	\$1,386,070	0.8390	\$1,593,550	0.9725	
Total:	\$3,124,651	\$3,121,218	1.8893	\$3,339,483	2.0381	6.99%

Truth In Taxation 105% Limit:

\$3,277,279

(\$62,204)



Discussion